United States Court of Appeals

for the Second Circuit

BRIEF FOR APPELLEE

77-7067

United States Court of Appeals

FOR THE SECOND CIRCUIT

NOVELTY TEXTILE MILLS, INC.,
Plaintiff-Appellant,

against

JOAN FABRICS CORPORATION,
Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF OF DEFENDANT-APPELLEE JOAN FABRICS CORPORATION

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United States Court of Appeals

FOR THE SECOND CIRCUIT

NOVELTY TEXTILE MILLS, INC. *Plaintiff-Appellant,* *—against—* JOAN FABRICS CORPORATION, *Defendant-Appellee.*	Docket No. 77-7067

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF OF DEFENDANT-APPELLEE JOAN FABRICS CORPORATION

COUNTERSTATEMENT OF THE ISSUES

1. Was the District Court's finding that plaintiff was not likely to succeed on the merits of its claim because no copyright infringement had been shown clearly erroneous in light of plaintiff's admission that all of the District Court's findings of fact were correct?

2. Was the District Court's finding that plaintiff would not suffer irreparable injury if interlocutory relief was denied clearly erroneous?

3. Was the District Court's ruling that a preliminary injunction may not issue without a showing that plaintiff will suffer irreparable injury erroneous as a matter of law?

COUNTERSTATEMENT OF THE CASE

Factual Context

Plaintiff-Appellant ("Novelty") and Defendant-Appellee ("Joan") manufacture, on machines made and sold by a company owned by Joan (App.* 64; 152-155), a full color-line of knit upholstery fabrics, and sell such fabrics to a substantially common group of furniture manufacturer customers. Novelty's fabrics feature its particular "expression" of the age-old and well-known Argyle or bias plaid theme (App. 127-132; 200; 201-202), and the ultimate issue in this action is whether Novelty's copyright thereon is infringed by Joan's fabrics, also copyrighted, which feature *its* "expression" of this age-old theme.

Furniture manufacturers continue to buy fabrics containing the parties' respective versions of these knit Argyle or bias plaids from both of them (App. 92-95; 159-160; 169-170), and also purchase other expressions of the same theme from at least one other manufacturer. Novelty admits that some such other expressions do not infringe its copyright, whereas others apparently stand accused (though not the subject of any pending litigation) (App. 22-23; 76-79; 133-137; 176-177).

Joan admits that its knit fabric design team knew of Novelty's expression of the Argyle or bias plaid prior to receiving instructions to independently develop its own Argyle or bias plaid (App. 157). Novelty admits that Joan's expression of the Argyle or bias plaid theme differs from its own (Brief, pp. 5-6, 20). The validity of Novelty's copyright is contested (¶¶ 4, 6, 9, App. 10-12), but may be assumed for purposes of this appeal.

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*As used herein, "App." followed by a number refers to the so-numbered page in the Joint Appendix.

The Record in the District Court

Novelty filed its Complaint on December 22, 1976. Joan answered on January 17, 1977. Novelty moved for a preliminary injunction concurrently with obtaining its Federal Copyright Registration and filing its Complaint. In connection with the motion, both parties submitted briefs, affidavits, and exhibits consisting of color photographs of fabric samples.

In addition to considering the parties' submissions, the District Court (Hon. Henry Werker) conducted an evidentiary hearing in the nature of a plenary trial. The hearing lasted more than four hours and generated 160 pages of transcribed record, including the oral testimony of three witnesses.

More than half of the hearing record is devoted to the testimony of Arthur Feinberg, Novelty's president, owner, and designer, who was subjected to direct, cross, and redirect examination. Feinberg was the only witness called on behalf of Novelty. The Court received in evidence each of the eleven exhibits offered by Novelty.

Judge Werker also heard the testimony, upon direct and cross examination, of two of the four witnesses proffered by Joan, including its president and one member of its three-man design team. Twenty-four exhibits offered by Joan were received in evidence, but others (as well as the testimony of Joan's other witnesses) were precluded as cumulative and directed solely to the range of variations on the Argyle plaid theme in the public domain—a range which the Court recognized, and Novelty conceded, was limitless and "older than Methuselah." During the course of the hearing, the District Court took the opportunity to direct its own questions to each of the three witnesses.

The District Court's Ruling

Based upon this extensive record, and in accordance with Fed. R. Civ. P. 52, the District Court rendered an eight-page Memorandum Decision denying Novelty's motion. That opinion, which sets forth with considerable specificity the required findings of fact and conclusions of law, readily reveals the District Court's rationale.

Assuming copyright validity absent evidence to the contrary, the Court turned to the question of infringement, which boiled down to whether Joan's variation is "substantially similar" to Novelty's. Taking the instance most favorable to plaintiff—the two fabrics which, because of color, most closely resembled each other—Judge Werker applied the very precedents urged upon him by Novelty* and found that "there has been no improper appropriation of Novelty's design" (App. 219-220), that "the differences between Style 253 and the Joan fabrics far exceed the similarities," (App. 220) and that "each of the differences noted would be apparent to a furniture manufacturer, or for that matter to a consumer seriously contemplating purchase of a couch covered with one or another of the fabrics" (App. 221-222). Having thus found no "substantial similarity," the Court concluded that infringement had not been shown—in other words, that Novelty had not satisfied its burden to establish a substantial likelihood of ultimate success on the merits.

Having so concluded, the District Court nevertheless went on to determine whether or not, absent an injunction, Novelty would suffer any irreparable harm. Based upon the

**United Merchants and Manufacturers, Inc.* v. *K. Gimbel Accessories, Inc.*, 294 F. Supp. 151 (S. D. N. Y. 1968); *Peter Pan Fabrics, Inc.* v. *Martin Weiner Corp.*, 274 F. 2d 487 (2d Cir. 1960); *Comptoir de l'Industrie Textile de France* v. *Tilbury Fabrics. Inc.*, 189 U. S. P. Q. 442 (S. D. N. Y. 1975); *see* pp. 6-7 of Plaintiff's Memorandum of Law in Support of its Motion and Page 5 of Judge Werker's Decision, App. 221.

entire record, the Court found that there was no evidence supporting Novelty's "loss of reputation" contention, that the evidence showed the existence of sufficient information to permit an accurate determination of damages (if Novelty were ever to be successful on the merits) and, hence, that there was no showing of irreparable harm.

Understandably disappointed in failing to obtain at this embryonic stage of the proceedings all of the drastic injunctive relief which it ultimately seeks, and admitting that all of Judge Werker's findings of fact are fully supported by the record (Brief, pp. 2-3, 5-6, 20-21), Novelty now complains, not of abuse of discretion, but rather of mistake of law. In so doing, it exalts form over substance and word over deed, and asks this Court to substitute its its judgment for that of the District Court via a full *de novo* review. Upon close analysis, the only basis for reversal urged on this appeal goes not to what Judge Werker did, but rather to the contention that he did not select from Novelty's precedents the particular words which it would prefer to see in the Memorandum Decision. In view of the record below, neither *de novo* review nor reversal can properly depend upon a simple failure to incant the magic language. The District Court's ruling was eminently correct and should be affirmed.

ARGUMENT

POINT I

THE DISTRICT COURT CORRECTLY HELD THAT NOVELTY HAD NOT ESTABLISHED A LIKELIHOOD OF SUCCESS ON THE MERITS

The Standards Governing the Issuance of a Preliminary Injunction

The legal principles applicable to the issuance of a preliminary injunction in this Circuit in a copyright in-

fringement action are well settled and beyond dispute. As in any other action in which a preliminary injunction is sought, movant must satisfy one of two alternative standards by showing: (1) a likelihood of success on the merits and possible irreparable injury; or (2) sufficiently serious questions going to the merits and a balance of the equities tipping decidedly in favor of preliminary relief. *See, e.g., State of New York* v. *Nuclear Regulatory Comm'n,* Nos. 75-6115, 76-6022, 76-6081, Slip. Op. at 6184-85 (2d Cir., Feb. 14, 1977); *Triebwasser & Katz* v. *American Telephone & Telegraph Co.,* 535 F. 2d 1356, 1358 (2d Cir. 1976); *Columbia Pictures Industries, Inc.* v. *American Broadcasting Companies, Inc.,* 501 F. 2d 894, 897 (2d Cir. 1974). As is demonstrated in Point II. *infra,* Novelty failed to meet its burden of showing that it would suffer irreparable injury under either alternative. Further, as the District Court correctly found, Novelty failed to establish a likelihood of success on the merits under the standard test applied by this Circuit in copyright infringement actions.

Infringement Test

Novelty asserts, and Joan agrees, that the determination of copyright infringement depends upon whether the accused work is "substantially similar" to the copyrighted design as viewed by the "ordinary observer." Novelty also recognizes that this "ordinary observer" test has been applied by the courts in this Circuit in accordance with two recognizably related but somewhat distinct approaches.

One of these approaches requires a comparison between the particular "expression" of the accused work and the particular "expression" of the copyrighted design. *See, Deering Milliken, Inc.* v. *Quaker Fabric Corp.,* 187 U. S. P. Q. 288 (S. D. N. Y. 1975); *Concord Fabrics,*

Inc. v *Generation Mills, Inc.*, 328 F. Supp. 1030 (S. D. N. Y. 1971). *See also, Millworth Converting Corp* v. *Slifka*, 276 F. 2d 443 (2d Cir. 1960). Applying this approach, the courts recognize that a copyright protects only the "expression" of an idea or theme, rather than the idea or theme itself. The extent to which an "expression" is protected by copyright depends upon the range of previous expressions of the same idea or theme which may be found in the public domain, and thus, are free for all to use. The extent of protection is accordingly reduced when there are many prior versions. Having determined the scope of protection, the courts then consider whether an "ordinary observer" would think one "expression" was taken from the other "expression"; if so, there is "substantially similarity."

In the other approach, the copyrighted design is compared with the accused work from an overall appearance point of view, without regard to the range of versions of the idea or theme in the public domain. As expressed by this Court in *Peter Pan Fabrics, Inc.* v. *Martin Weiner Corp.*, 274 F. 2d 487, 489 (2d Cir. 1960), the test is: "[whether] the ordinary observer, unless he set out to detect the disparities, would be disposed to overlook them, and regard their aesthetic appeal as the same." A more recent formulation of this approach is:

> "[W]hether an average lay observer would find a substantial similarity in the designs, recognizing the copy as an appropriation of the copyrighted work." *Concord Fabrics, Inc.* v. *Marcus Brothers Textile Corp.*, 409 F. 2d 1315, 1316 (2d Cir. 1969).

There can be no doubt that in this case the District Court applied the "ordinary observer" test approved by this Court in such cases as *Deering Milliken* and *Concord*

Fabrics. Indeed, at the evidentiary hearing, the Court announced that "the question is what does the fabric look like to the average lay person" (App. 147). Furthermore, the District Court, in its Memorandum Decision, quoted yet another version of the test taken from a case urged upon it by Novelty: "whether an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work." *United Merchants and Manufacturers, Inc.* v. *K. Gimbel Accessories, Inc.*, 294 F. Supp. 151, 154 (S. D. N. Y. 1968) (App. 221).

In proceeding to apply the "ordinary observer" test to the fabrics here in question, Judge Werker found that "there has been no improper appropriation of Novelty's design" (App. 219-220), that "the differences between Style 253 and the Joan fabrics far exceed the similarities" (App. 220), and that "each of the differences noted would be apparent to a furniture manufacturer, or for that matter to a consumer seriously contemplating purchase of a couch covered with one or another of the fabrics" (App. 221-222). Thus, the Court found no "substantial similarity" and concluded that no copyright infringement had been shown.

Disregarding the well-supported findings of the court below, Novelty asserts that the Court misapplied the "ordinary observer" test under either of the approaches. The fact is to the contrary. In making these findings, Judge Werker properly applied the test under both of the aforesaid approaches. Such proper application becomes all the more difficult to refute in light of certain crucial admissions and undisputed facts.

Factual Considerations

Novelty admits the correctness of the District Court's findings of fact (Brief, pp. 2-3, 21). More particularly, it admits that:

(1) Joan has a policy of design origination and of respecting the rights of others to their designs, and in this instance, Joan's design team was instructed to create its own version of an Argyle plaid (App. 217);

(2) Joan's expression differs from Novelty's expression in each of the ways found by the Court, and each and all of such differences would be apparent to a manufacturer or to a consumer (Brief, pp. 5-6; App. 220-221);

(3) Novelty's president admitted that some versions of Argyle plaids do not infringe its copyright, thereby admitting that the scope of protection accorded its copyright is quite limited (App. 133-140).

The following facts, as to which there is no conflicting testimony, are clear from the record and apparently undisputed by Novelty:

(a) Argyle or bias plaids are a simple geometric design, and there are only a limited number of changes possible in seeking a new "expression" (App. 46);

(b) Argyles are "older than Methuselah" (App. 200) and the number of prior versions is limitless (App. 198);

(c) Novelty has made in the past a number of similar knit Argyle plaid fabrics, some of which included several important features of Style 253. Such features are not unique, and are not claimed to be unique (App. 127-132);

(d) Novelty and Joan's mutual customers recognize that the two expressions are different designs. Joan's expression has never been sold as a substitute for or

imitation of Novelty's expression (App. 158-161; 166-168; 195-197);

(e) Joan's designers, though having seen Novelty's version, did not have it before them while arriving at Joan's expression (App. 185-188).

When read in the light of these undisputed facts, the correctness of the District Court's decision is apparent.

The "Ordinary Observer" Test as Applied by the Court

The Court first found that certain features were common to all Argyle plaids (App. 219). Thus, one would expect such common features to be present in both Novelty's and Joan's version of this theme. Secondly, Judge Werker compared Novelty's and Joan's particular "expressions" and found some similarities (App. 220) due primarily to the fact that both parties use the same ("Cidega") machines to manufacture their fabrics (App. 220). More significantly, the Court found numerous differences between the "expressions" (App. 220-221), and that (1) the differences far exceed the similarities (App. 220), (2) each difference would be apparent to the ordinary observer (App. 221-222), (3) there had been no "improper appropriation" (App. 219-220), and (4) there was no "substantial similarity" (App. 222).

Novelty complains that the District Court did not explicitly state that the "ordinary observer" would not think that one "expression" was taken from the other, or would not believe that one "expression" was a copy of the other. Thus, Novelty does not challenge Judge Werker's rationale, but merely quibbles over the words which he chose to use. Even if form *were* properly exalted over substance, by any reasonable standard, the words used by the Court are the full equivalent of the "magic" words which Novelty would prefer.

Novelty also argues that the "comparison of expressions" approach should not have been applied in this case in the absence of evidence that Novelty itself copied a public domain fabric. Such evidence is simply not necessary, in view of Novelty's admissions as to non-infringement and non-uniqueness. *Herbert Rosenthal Jewelry Corp.* v. *Honora Jewelry Co.,* 509 F. 2d 64 (2d Cir. 1974), *aff'g,* 378 F. Supp. 485 (S. D. N. Y. 1974).

In *Rosenthal,* a copyright infringement action involving jeweled gold pins in the form of turtles, this Court affirmed the District Court's denial of a preliminary injunction, and its grant of summary judgment to defendant. There was no evidence that plaintiff actually had a turtle in hand when designing its pin (defendant apparently had or knew of plaintiff's turtle pin). The Court nevertheless found the common features of turtles, compared one expression of a turtle with the other, and held that the accused expression was sufficiently different from the copyrighted expression to avoid infringement. The analogy to the instant case is self-evident.*

It is equally plain that the Court's application of the test withstands close scrutiny under the "overall appear-

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*This principle has been recognized by the United States Copyright Office. *See* Compendium of Copyright Office Practice (1970), U. S. Copyright Office, at S-11:

"In order to be acceptable as a work of art, the work must embody some creative authorship. Thus, a work consisting solely of a commonly-used geometric figure or pattern or a well-known symbol is not acceptable as a work of art.

For example, we would not accept:

(1) A simple triangle in a circle.

(2) An ordinary fleur-de-lis.

(3) A simple pattern of white polka dots on a blue background.

(4) A simple checkerboard pattern of green and yellow squares.

(5) A Scotch plaid."

ance" approach. Having stated the "overall appearance" approach as Novelty would have it stated, *supra,* at p. 8, the Court compared the two fabrics and found both differences and similarities. The Court then found that the differences exceeded the similarities, that the differences would be apparent to the ordinary observer, that there was no substantial similarity between the fabrics, and that there had been no improper appropriation. Thus, the Court necessarily concluded that the "ordinary observer" would not think one to have been appropriated from the other. Indeed, the findings and conclusions of the district court are fully consistent even with Novelty's alternative formulation of the test (Brief, p. 12) that "the ordinary observer unless he set out to overlook the disparities, would be disposed to detect them and to regard their aesthetic appeal as somewhat different." Here again, Novelty takes issue not with the substance of the Court's ruling but with the words chosen to express it—but to no avail, since Judge Werker's findings are plainly the full equivalent of the words which Novelty prefers.

Novelty further argues that furniture manufacturers and consumers are "experts" and therefore not "average lay observers." Aside from the fact that the only "experts" in this field are the fabric designers, and not the furniture manufacturers, Novelty cites no authority which requires that the "ordinary observer" be a random casual pedestrian. Quite the contrary, as stated by Judge Learned Hand in *Peter Pan Fabrics, Inc.* v. *Martin Weiner Corp., supra,* at p. 489, "one should consider the uses for which the design is intended, especially the scrutiny that observers will give to it as used." *See also, Soptra Fabrics Corp.* v. *Stafford Knitting Mills, Inc.,* 490 F. 2d 1092 (2d Cir. 1974), where this Court equated the "ordinary observer" with the consumer, a woman wearing a dress made of

the fabric in question. Here, if the "intended uses" are taken into consideration, it is difficult to imagine a more appropriate "ordinary observer" than a furniture manufacturer (the fabric consumer) or purchaser.

In sum, under any fair reading and any rational analysis, the District Court unquestionably applied the proper test in the proper manner in concluding that Novelty showed no likelihood of success on the merits.

POINT II

THE DISTRICT COURT PROPERLY HELD THAT NOVELTY MADE NO SHOWING OF ANY IRREPARABLE INJURY

Equity Requires Some Showing of Irreparable Injury

Having failed to show a likelihood of ultimate success on the merits, Novelty did not satisfy the first alternative basis for grant of a preliminary injunction. Nor did it satisfy the second branch of the rule, for it totally failed to establish an immediate threat of *any* irreparable injury if relief were not granted—a fact sufficient in and of itself to defeat a claim for injunctive relief.

When the plaintiff is able to demonstrate a substantial likelihood of success on the merits he must then go further and show a threat of irreparable injury. The alternative "balancing of hardships" test also—indeed necessarily—includes the showing of irreparable harm. For if the showing on the merits is less clear, and the plaintiff merely raises sufficiently serious questions to make them fair ground for litigation,* the court must find not only a threat of immedi-

*As demonstrated in Point I, *supra,* one might well question whether Novelty's proof was sufficient to establish sufficiently serious questions going to the merits—the *sine qua non* for preliminary injunctive relief under the second branch of the applicable criterion.

ate irreparable harm, but in addition that such irreparable harm decidedly outbalances the harm to the defendant if relief is granted. As recently restated by the Court in *Triebwasser & Katz* v. *American Telephone & Telegraph Co.*, 535 F. 2d 1356, 1358 (2d Cir. 1976):

> "[T]he familiar test of this circuit [is] that a preliminary injunction will issue 'only upon a clear showing of either (1) probable success on the merits *and* possible irreparable injury, *or* (2) sufficiently serious questions going to the merits to make them a fair ground for litigation *and* a balance of hardships tipping decidedly toward the party requesting the preliminary relief.' *Sonesta Int'l Hotels Corp.* v. *Wellington Associates*, 483 F. 2d 247, 250 (2d Cir. 1973) (emphasis in original)."

Both branches of the rule require a showing of irreparable injury. In the words of Judge Waterman in *State of New York* v. *Nuclear Regulatory Comm'n*, Nos. 75-6115, 76-6022, 76-6081, slip op. at 6185 (2d Cir., Feb. 14, 1977), a showing of irreparable harm is a "fundamental and traditional requirement of *all* preliminary injunctive relief." (Citing *Triebwasser* with approval).

Judge Werker applied these well-settled equitable principles here. Having found that no such showing of irreparable injury had been made, the Court properly denied plaintiff's motion for a preliminary injunction.

The Same Equitable Principles Apply to Copyright Infringement Actions

Unable to dispute the District Court's conclusion, Novelty asserts that these equitable principles somehow do not apply in copyright cases. There is simply no foundation for that claim.

Novelty correctly states that there is a constitutional basis for copyright protection and urges that such rights should be respected. As the owner of some 500 Federal Copyright Registrations (App. 153), Joan most certainly agrees. However, because copyrights are a constitutionally sanctioned exception to our system's traditional abhorrence of monopolies, the scope of the deference and protection ascribed to any copyright must be limited to that which the "author" has done which is truly protectable. Otherwise, items in the public domain would be withdrawn from public availability, thereby thwarting the constitutional purpose. Thus, a restrictive rather than a liberalized approach to copyrights is dictated by the Constitution. *See Ideal Toy Corp.* v. *Sayco Doll Corp.*, 302 F. 2d 623 (2d Cir. 1962) (Clark, C. J., dissenting); *Herbert Rosenthal Jewelry Corp.* v. *Kalpakian*, 446 F. 2d 738 (9th Cir. 1971).

Nevertheless, Novelty argues, in a leap of faith unsupported by any authority, that because of the constitutional aura attaching to copyrights, the courts accord them special treatment and require no showing at all of irreparable injury where a *prima facie* case of copyright infringement is made out. That simply is not the law. The same equitable principles apply to copyrights as apply to other rights, and to support a successful motion for a preliminary injunction a showing of irreparable injury must be made. The record reveals that Novelty failed to meet this burden.

Rushton v. *Vitale*, 218 F. 2d 434 (2d Cir. 1955), relied upon by Novelty, does not hold that *no* showing need be made. Rather, it simply stands for the proposition that when a strong showing of probability of ultimate success has been made by movant, it is not necessary for movant also to make a *detailed* showing of irreparable harm. This proposition is entirely consistent with the principles enunciated in

Triebwasser, supra, particularly when it is considered that the copyrighted "work of art" in *Rushton* was a doll sold in a very short-lived market.

What is more, in the few cases in which the courts have suggested (*in dicta*) that no showing of irreparable injury is required in copyright infringement actions, the basis for the decision was actually the impermanence of the market as related to the "no *detailed* showing" test of *Rushton.* Thus, in *American Metropolitan Enterprises of New York, Inc.* v. *Warner Bros. Records,* 389 F. 2d 903 (2d Cir. 1968), the court, *in dictum* and without authority, stated that no showing of irreparable injury was necessary. However, in affirming the denial of preliminary injunctive relief because of the existence of an adequate remedy at law, that Court relied upon both the traditional principles later expressed in *Triebwasser* and the "no detailed showing" language of *Rushton.*

Similarly, in *Robert Stigwood Group Ltd.* v. *Sperber,* 457 F. 2d 50 (2d Cir. 1972), the dictum of *American Metropolitan* is quoted and the "no detailed showing" concept approved. However, the critical factor in *Stigwood* was clearly the "impermanence" of the popularity of the musical in question.

It is clear upon close analysis that the rationale of these cases which appear to eliminate irreparable harm as a prerequisite to the grant of a preliminary injunction in copyright infringement cases is not an abrogation of equitable principles. Rather, in those cases, the market for the "work of art" was so short-lived that a denial of preliminary relief amounted to a denial of all relief—in other words, irreparable injury. This is equally true of certain fabric cases, unlike the case before this Court, where the designs are short-lived and the demand is transitory. *See, e.g., Soptra Fabrics Corp.* v. *Stafford Knitting Mills Inc.,* 490

F. 2d 1092, 1093 (2d Cir. 1974) where the Court stated that "dress fabric designs notoriously last one year."

The market for upholstery fabrics is not short-lived. Novelty has admitted that the market demand for its fabric designs last for years (App. 142-143). Accordingly, the rationale underlying *American Metropolitan* and *Stigwood* is inapposite here. The District Court properly applied the equitable principles enunciated in *Triebwasser* and examined the record for evidence of some irreparable harm warranting the drastic remedy of injunctive relief. It correctly found that there was none.

The Record Shows No Irreparable Injury

Novelty's argument that the District Court erred in finding irreparable harm is totally without foundation. A review of the record plainly shows that Novelty is threatened with no harm any more immediate or severe than that faced by any businessman vis-a-vis non-infringing competition. On balance, the issuance of a preliminary injunction will not help Novelty nearly as much as it will hurt Joan.

Novelty complains that it lost sales after Joan came on the market with its plaid version (App. 88-91; 96-97; 140-142). However, Novelty admits that at about the same time, at least one other supplier of Argyle plaids also came on the market, and that some such plaids do not infringe. Other such plaids have been accused of infringement. But Novelty has instituted no action, and apparently sees no need to remove that competition (App. 78-79; 132-140; 149-150), even though sales may have been lost to a third party other than Joan (App. 139-140). A preliminary injunction against Joan will not eliminate any of these other third party competitive efforts.

On the other hand, Novelty would not be unduly harmed by the denial of a preliminary injunction, for the following reasons:

(1) Both Novelty and Joan have records which accurately reflect the marketing situation (App. 96-97; 171-173). Novelty seeks one dollar per yard damages (App. 7), and as Joan is a substantial concern (App. 151-152), there will be no difficulty determining or paying such damages in the unlikely event that Novelty is ultimately successful.

(2) Many important furniture manufacturers continue to buy Argyles from both Novelty and Joan (App. 92-93; 159-160; 169-170). Such customers recognize that their respective fabric lines are different designs. (App. 158-159; 195-197). Thus, Novelty's customers continue to recognize its value as a supplier and the desirability of its fabrics. Novelty has suffered no loss of reputation.

(3) The market demand for knit upholstery fabrics is not short-lived, and in fact lasts for years (App. 142-143). Thus, in view of its continuing reputation, Novelty will, if ultimately successful, immediately be able to exploit a still strong and ongoing market demand. In fact, major marketing events occur all year throughout the country (App. 85-86; 155).

(4) Novelty has many successful products in many different lines, made on versatile equipment (App. 62-64; 142-143). It can well survive a situation no different from any other ordinary patent, trademark, or copyright infringement litigation.

The present situation, then, is one of healthy multi-party competition, and it is this *status quo* which should be preserved. A preliminary injunction will not help Novelty. The long market life of upholstery fabrics assures that effective

relief, if deserved, can still be accorded Novelty following a full trial on the merits. Such relief could include both a precise determination of damages and, indeed, a permanent injunction.

It is Novelty's burden to show otherwise, and this burden has not been met. The District Court's decision correctly applies the law, is fully supported by the record, and should therefore be affirmed.

POINT III

THERE IS NO BASIS FOR DE NOVO REVIEW

As demonstrated in Points I and II, *supra,* the District Court correctly applied well-established standards in denying Novelty's motion for preliminary injunctive relief. Novelty admits that all of the District Court's findings of fact are correct and fully supported by the record (Brief, pp. 2-3, 5-6, 20-21) and, in essence, seeks a *de novo* review of the District Court's decision merely because it is not happy with the result. Needless to say, that is not the applicable standard of appellate review.

Novelty correctly states in its brief (p. 8) that "the grant or denial of a preliminary injunction is discretionary with the District Judge and reversal on appeal requires a showing of abuse of discretion or clear mistake of law." Novelty's brief nowhere identifies those "mistakes" which the District Court is purported to have made in the law applied in this case. Instead, it urges this Court (Brief, p. 21; *also* pp. 6, 16-20) to overlook the District Court's findings and to examine the fabrics *in vacuo* without benefit of demeanor testimony, to re-find the similarities and differences, and to re-assess the effects thereof in the mind and eye of the "ordinary observer." In short, Novelty anomalously seeks *de novo* review of the facts as to substantial similarity, after having admitted that the District Court's findings of fact were amply supported by the record.

This approach is totally without foundation. This Court should decline *de novo* review and should not substitute its judgment for that of the District Court for two reasons. First, the District Court's determination of non-infringement was based upon both physical exhibits and demeanor testimony,* and "due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." Fed. R. Civ. P. 52(a). Second, even if it be assumed, *arguendo,* that Judge Werker's conclusion of no infringement was based solely upon a comparison of physical exhibits, the conditions normally underlying the exercise of a discretionary broadening of the scope of review are not present here.

Conditions for Discretionary De Novo Review

This Court recently reconsidered the standards of review governing the consideration of an appeal from the

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*The transcribed record includes the following evidence pertinent to the issue of infringement, in addition to the fabric samples *per se*:

(a) testimony by Mr. Feinberg on direct (App. 100-105), and on cross-examination (App. 117-126; 145-148) as to the features of each of Appellant's and Appellee's versions, and comparison thereof;

(b) testimony by Joan's Mr. Gangi, in comparison of the fabrics, on direct (App. 185-195) and on cross-examination (App. 206-208);

(c) testimony by Mr. Ansin as to recognition by continuing mutual customers that the two versions are different designs (App. 158-161; 166-170), and by Mr. Gangi to the same effect (App. 195-197; 209-210);

(d) testimony by Mr. Feinberg that others currently make similar knit Argyle plaids, some of which infringe and others of which do not (App. 76-79; 133-137) *See also* Ansin testimony, App. 176-177);

(e) testimony by Mr. Feinberg that Argyles are old and that features of his design are not unique (App. 127-132; 200) (*See also* Gangi testimony, App. 201-202).

denial of preliminary injunctive relief. *State of New York v. Nuclear Regulatory Comm'n,* Nos. 75-6115, 76-6022, 76-6081, slip op. at 6186-6191 (2d Cir., Feb. 14, 1977). Judge Waterman noted that, contrary to decisions in other circuits, this Court had on occasion undertaken an expanded review in cases in which the decision below was based solely on documentary evidence, and not, as in the case at bar, on oral testimony. Noting that expanded review is discretionary, the Court proceeded to set forth the conditions under which such discretion should be exercised (*Id.* at 6188-6191):

> (1) There is greater justification for expanded review when the "drastic remedy" of a preliminary injunction is granted, rather than denied;
>
> (2) The more detailed and specific the findings and conclusions of the District Court, the less justification for expanded review;
>
> (3) There is more justification for expanded review when there were defects in the proceedings below, apart from the findings.

Even assuming, *arguendo,* that the District Court's findings here depended solely upon documentary evidence (which it plainly did not), *de novo* review would nevertheless still be inappropriate because none of the aforementioned conditions exists. First, this Court is being asked to review a *denial* of a preliminary injunction. Second, Novelty concedes that Judge Werker's findings are fully supported by the record, and indeed eight pages of findings and conclusions seem most abundant in a case of this nature. Third, neither party complains of any "defects" in any of the proceedings in the District Court, and a reading of the record reveals no prejudicial defects whatsoever.

Under the applicable standards, *de novo* review is inappropriate. To hold otherwise would emasculate the function of the District Court and set at naught the expenditure of judicial resources required for a plenary trial.

As to Irreparable Harm

It is not clear from Novelty's brief whether it seeks *de novo* review as to the facts underlying the District Court's findings that there was an insufficient showing of irreparable harm. *De novo* review of this question is inappropriate for all of the reasons set forth above, particularly since *all* of the evidence as to irreparable harm is in the form of oral testimony in open court.

Although both parties proffered testimony as to the contents of certain business records (*e.g.*, App. 88-91; 96-97; 140-142; 168-174), no such records were introduced as exhibits. In addition, other oral testimony obviously had some bearing upon the district Court's findings and conclusions. For example, although there was no testimony as to any loss of reputation, there was testimony that principal customers of both parties continue to buy some of each fabric from each party (App. 92-95; 159-160; 169-170). Similarly, testimony that the market demand for upholstery fabrics lasts for years (App. 142-143; 62-63), and that Novelty's sales were affected by competition with third parties marketing Argyle plaids (App. 176-177; 78-79; 132-140; 159-160; *compare* App. 92-95 *with* App. 159-160) is obviously relevant to the issue of irreparable harm.

Thus, under circumstances where there is no reason to review the district court's findings any more comprehensively than "if they were derived from testimonial as well as documentary evidence," the appropriate standard of review is whether the district court abused its discretion

in finding that the plaintiff failed to establish irreparable injury. *State of New York* v. *Nuclear Regulatory Comm'n, supra,* at 6191. It is apparent that there was no such abuse of discretion here, and Novelty claims none. Accordingly, the decision below should be affirmed.

CONCLUSION

Following a full evidentiary hearing involving demeanor evidence as to both infringement and irreparable harm, the District Court upon the entire record held that Novelty had not made an adequate showing of either irreparable harm or probability of ultimate success on the merits, and denied a preliminary injunction. In so doing, the District Court applied well-settled legal criteria to the facts before it. The record fully supports the findings of the District Court, and its decision denying a preliminary injunction should accordingly be affirmed.

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Respectfully submitted,

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